

# Action Note

Equity Research

May 10, 2021

Metals &amp; Minerals

## Cameco Corp.

(CCO-T, CCJ-N) C\$24.44 | US\$20.08

### Are We There Yet?

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### Event

We have updated our estimates after the release of Q1/21 results.

### Impact: SLIGHTLY POSITIVE

A number of positive developments surfaced from CCO's Q1/21 results, but we also noted some cautionary statements as well. Notably, management was encouraged by the recent signing of 9mm lbs of uranium under LT contracts. While contract terms were not disclosed, the contract signings suggest that utilities are refocusing on their LT needs again after a year of being mostly focused on managing COVID-19 risks. Management was hesitant to suggest that CCO's off-market contracts indicate the start of the long-awaited contracting cycle, saying that in its view the market needs to see a steady flow of utility on-market RFPs to demonstrate that a contracting cycle has truly started - and the market is not quite there yet.

In reference to its own contracting strategy, management warned pre-production companies "that are planning their supply decisions, believing there's going to be this gap in the market in 2027, 2028 that will not be filled. It will be filled. It will be filled by this type of contracting over the next couple of years. So if you're not involved in it now, you're going to end up with supply that doesn't have a home in the future".

Management also highlighted the recent announcement of the conversion of Uranium Participation Corp. into the Sprott Uranium Trust as potentially a positive market development bringing "an experienced professional manager in the physical metals space" that should help in the development of price transparency. This is assuming that the managers purchase uranium at the front-end of the curve and therefore tighten-up the physical near-term market, rather than buying out along the curve, as has been the case for some recent "spot" market activity that was actually bordering on mid-term purchasing.

### TD Investment Conclusion

We are maintaining our HOLD recommendation. We have increased our target price to \$25.00 (from \$22.00) on a slight increase in our NAV-8% and by raising our target NAV multiple to 1.6x (from 1.5x). During the last uranium bull cycle between 2006 and 2011, CCO traded at an average P/NAV multiple based on our estimates of ~1.5x.



### Company Profile

Cameco is one of the world's largest uranium producers. The company's flagship McArthur River and Cigar Lake mines are located in the Athabasca Basin in Saskatchewan, Canada.

<b>Recommendation:</b>	<b>HOLD</b>
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>C\$25.00↑</b> Prior: C\$22.00
<b>12-Month Dividend (Est.):</b>	<b>C\$0.08</b>
<b>12-Month Total Return:</b>	<b>2.6%</b>

### Market Data (C\$)

Current Price	C\$24.44
52-Week Range	\$11.84 - \$24.58
Mkt Cap (f.d.) (\$mm)	\$9,702.7
EV (\$mm)	\$9,675.7
Current Dividend	\$0.08
Dividend Yield	0.3%
Avg. Daily Trading Vol.	2,725,963

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	397.0
Float Shares (mm)	397.0
Net Debt/Total Cap	3.1%
NAVPS	\$15.61
Working Cap (\$mm)	\$1,709.1

### Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EBITDA (\$mm)	372.8	154.9	20.7	137.3
EBITDA (\$mm) (old)	-	-	(33.8)	130.1
EPS (f.d.)	0.10	(0.17)	(0.43)	(0.06)
EPS (f.d.) (old)	-	-	(0.53)	(0.09)
CFPS (f.d)	1.04	0.65	0.09	0.36
CFPS (f.d) (old)	-	-	(0.09)	0.34

### EPS (f.d.) Quarterly Estimates (C\$)

Year	2019A	2020A	2021E	2022E
Q1	(0.08)	0.07	(0.17)	-
Q2	(0.04)	(0.16)	(0.20)	-
Q3	(0.01)	(0.20)	(0.06)	-
Q4	0.23	0.12	0.00	-

### Valuations

Year	2019A	2020A	2021E	2022E
EV/EBITDA	26.0x	62.5x	467.4x	70.5x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	23.5x	37.6x	nmf	67.9x

### Supplemental Data

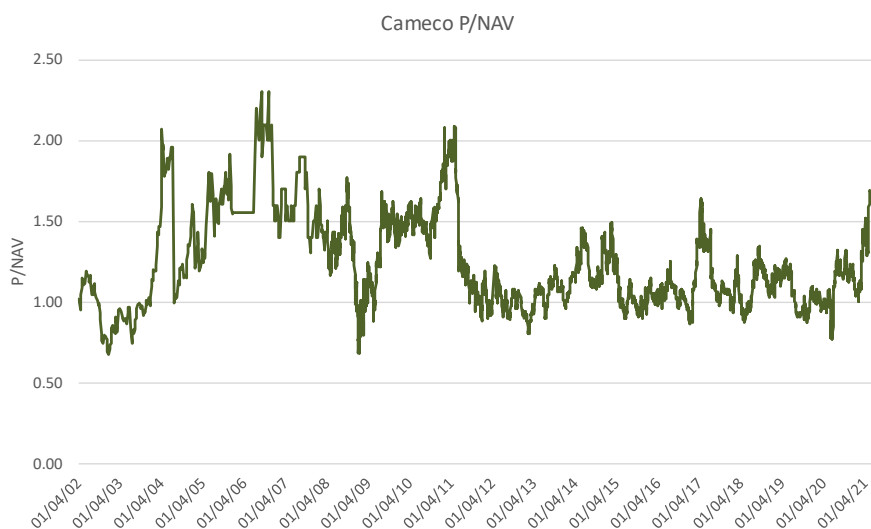
Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	30	33	36
U3O8 Prod. Mlb	9	5	5	9

All figures in C\$, unless otherwise specified

## Details

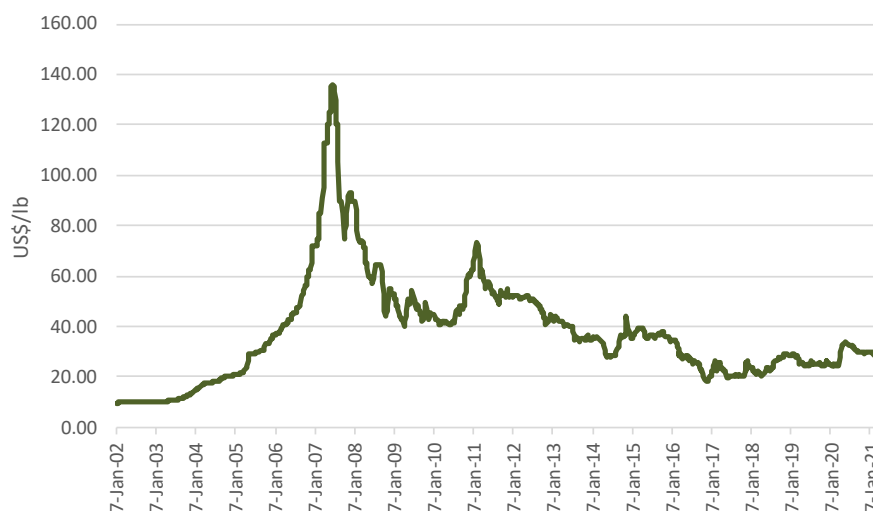
**Are we there yet? In one way, the answer to this question is yes, but in other ways, it is no.** Uranium equities have rallied sharply year-to-date, and based on our modelling, Cameco's current share price is discounting LT uranium prices of somewhere between US\$58/lb and US\$70/lb (see below). However, the physical uranium market has yet to display the urgency we are seeing in the equity markets. While several rounds of non-fundamental buying have pushed the uranium price up to the US\$30/lb level, once the fund/producer (or pre-producer) buying is exhausted, volume in the uranium market disappears and the price fades along with it. As Cameco noted, the market has not yet reached the point where significant on-market contract activity is apparent (e.g., a steady flow of multiple utility RFPs hitting the market simultaneously), which would signal a fundamental shift in utility demand.

### Exhibit 1. Cameco's P/NAV 2002 - Current



Source: TD Securities Inc. estimates

### Exhibit 2. UxC Uranium Spot Price Indicator January 2002 – Current



Source: UxC; TD Securities Inc. estimates

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**Based on our forecasts, Cameco is trading at ~1.57x P/NAV, which is similar to levels reached during the uranium bull-cycle in 2006-2007.** Our modelling suggests that Cameco's share price is discounting a LT flat uranium price (realized) of US\$70.00/lb starting in 2022, assuming a 1.0x P/NAV multiple. Over the past 20 years, our modelling shows that Cameco has traded at an average P/NAV multiple of ~1.2x. If we use that as a base, Cameco share price is discounting a LT uranium price of ~US\$58.00/lb.

**Alternatively, we estimate that Cameco's current share price is discounting a 2025 uranium price of ~US\$65/lb based on a 10x 2025 EV/2025 EBITDA multiple, discounted back to today and assuming that Cameco's uranium mining operations are all operating at full capacity.** While we believe that the long-term incentive price for greenfield uranium production could be in the US\$55-US\$65/lb range, we also do not expect that new greenfield uranium production capacity to be required until the late-2020s at the earliest, given the significant volume of brownfield curtailed uranium production capacity – a view that is reinforced by Cameco's statement that the expected recovery in uranium prices will be one that is enjoyed by incumbent producers rather than new entrants.

CCO has increased its guidance for uranium purchases for 2021 to 11-13mm lbs (from 8-10mm lbs) due to the unplanned closure of Cigar Lake during the period related to COVID-19. We note that CCO's planned 2021 uranium purchases for 2021 include related party purchases from Inkai (~5Mlbs) and purchases from Nukem's excess inventory (a few mm lbs). To the end of March, Cameco reported that it has purchased 1.5mm lbs of uranium this year. This suggests that Cameco's purchasing requirements over the balance of the year (prior to any buying this year for 2022 needs) should be in a range of 2.5mm-4.5mm lbs.

### Exhibit 3. Uranium Global Supply/Demand Model

	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
<b>Mine Supply - Western World (Mlb U3O8)</b>									
Total Mine Supply - Western World	100	83	85	81	73	80	85	88	86
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
<b>Total World Mine Supply (Mlb U3O8)</b>	<b>154</b>	<b>138</b>	<b>140</b>	<b>125</b>	<b>126</b>	<b>132</b>	<b>145</b>	<b>154</b>	<b>158</b>
YoY % change	-7.6%	-10.2%	1.7%	-10.9%	0.7%	5.3%	9.1%	6.8%	2.6%
<b>Secondary Supply</b>									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
<b>Total Secondary Supply (Mlb)</b>	<b>27</b>	<b>24</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
<b>Mobilization of Commercial Inventory</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Supply</b>	<b>187</b>	<b>169</b>	<b>173</b>	<b>156</b>	<b>155</b>	<b>161</b>	<b>173</b>	<b>183</b>	<b>187</b>
<b>Total World Demand</b>									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
<b>Total World Demand (Mlb U3O8)</b>	<b>169</b>	<b>174</b>	<b>176</b>	<b>177</b>	<b>181</b>	<b>182</b>	<b>184</b>	<b>186</b>	<b>188</b>
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
<b>Supply / Demand Balance (Mlb)</b>	<b>18</b>	<b>-5</b>	<b>-3</b>	<b>-21</b>	<b>-27</b>	<b>-21</b>	<b>-11</b>	<b>-4</b>	<b>-2</b>
<b>Spot Uranium Price (US\$/lb U3O8)</b>	<b>\$22.12</b>	<b>\$24.82</b>	<b>\$25.94</b>	<b>\$29.52</b>	<b>\$32.99</b>	<b>\$36.00</b>	<b>\$38.00</b>	<b>\$40.00</b>	<b>\$45.00</b>

\* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

Source: UxC; World Nuclear Association; TD Securities Inc.

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## Outlook

We have updated our forecasts to reflect Q1/21 results and guidance.

### Exhibit 4. Cameco's Net Asset Value

Cameco Net Asset Value		8%		10%	
		C\$000	C\$/sh	C\$000	C\$/sh
<b>Nuclear Operations</b>					
McArthur River	69.8% MRJV, 83.33% KLJV	2,234,696	5.63	1,789,455	4.51
Cigar Lake	50.3% JV	862,435	2.17	794,870	2.00
Rabbit Lake	100%	114,262	0.29	89,086	0.22
Inkai	40%	1,382,232	3.48	1,100,813	2.77
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	685,237	1.73	606,537	1.53
<b>Total Operations</b>		<b>5,577,662</b>	<b>14.05</b>	<b>4,679,560</b>	<b>11.79</b>
Existing Mines (50% inferred resources @ C\$8/lb)					
		515,200	1.30	515,200	1.30
Pipeline projects (50% total resources @ C\$4/lb) *					
		628,200	1.58	628,200	1.58
<b>Mining/Project NAV</b>		<b>6,721,062</b>	<b>16.93</b>	<b>5,822,960</b>	<b>14.67</b>
<b>Plus:</b>					
Working Capital		1,709,142	4.30	1,709,142	4.30
Equity Investments		14,767	0.04	14,767	0.04
<b>Minus:</b>					
Corporate G&A		(425,982)	(1.07)	(391,934)	(0.99)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(995,709)	(2.51)	(995,709)	(2.51)
Reclamation		(1,032,762)	(2.60)	(1,032,762)	(2.60)
Plus/(Minus) balance sheet items		(523,591)	(1.32)	(489,543)	(1.23)
<b>Total NAV</b>		<b>6,197,472</b>	<b>15.61</b>	<b>5,333,417</b>	<b>13.43</b>

\* Pipeline projects include: Yeelirrie, Kintyre, Millennium and Fox Lake

TD Metal Price Forecasts	2021E	2022E	2023E	LT
Uranium (US\$/lb)	32.99	36.00	38.00	45.00
US\$/C\$	0.79	0.80	0.79	0.80

Source: TD Securities Inc. estimates

## Valuation

CCO is currently trading at a P/NAV multiple of ~1.56x compared with its larger-cap Canadian mining peers at an average of 1.16x. Based on our forecasts, Cameco has traded at an average P/NAV multiple of 1.2x since 2011 (post the Fukushima accident).

## Justification of Target Price

Our \$25.00 target price is based on a NAV-8% multiple of 1.6x (previously 1.5x, 100% weighted). We note that during the last uranium bull cycle between 2006 and 2011, CCO traded at an average P/NAV multiple based on our estimates of ~1.5x, with a peak of ~2.25x and low of 0.75x (during the Financial Crisis).

## Key Risks to Target Price

The main risks facing the company include forecast, financial, technical, and political risks. Among other things, these include risks related to uranium prices, input costs, and fuel prices; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources and reserves; operating parameters; permitting; environment; and staffing and key personnel retention. As Cameco is primarily a uranium mining company, it faces heightened environmental risks relative to other mining companies. COVID-19-related operational restrictions could impact our forecasts.



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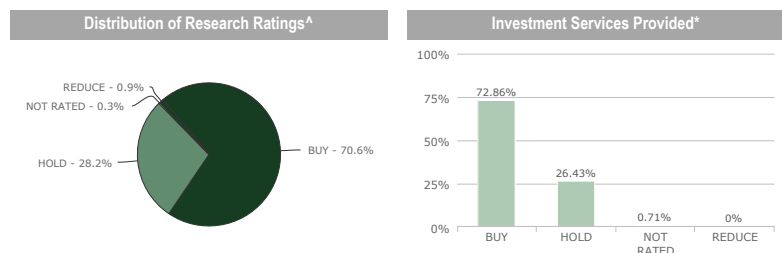
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Cameco Corp.	CCO-T   CCJ-N	2, 4, 9

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